

Report to Congress

Submitted Pursuant to U.S. Policy in Iraq Act, Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (PL 109-163), as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181) and Section 1213(c) of the National Defense Authorization Act for Fiscal Year 2009 (Public Law 110-47).

January 2009

Report to Congress

Submitted Pursuant to U.S. Policy in Iraq Act, Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (PL 109-163), as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181) and Section 1213(c) of the National Defense Authorization Act for Fiscal Year 2009 (Public Law 110-47).

January 2009

Table of Contents

Introduction.....	5
I. The current military mission and the diplomatic, political, economic, and military measures that are being or have been undertaken to successfully complete or support that mission.....	15
(A) Encouraging Iraq’s main communities to make the compromises necessary for a broad-based and sustainable political settlement..	15
(B) Engaging the international community and the region in efforts to stabilize Iraq and to forge a broad-based and sustainable political settlement.....	20
(C) Strengthening the capacity of Iraq’s government ministries.....	23
(D) Accelerating the delivery of basic services.....	26
(E) Securing the delivery of pledged economic assistance from the international community and additional pledges of assistance.....	27
(F) Training Iraqi Security Forces and transferring additional security responsibilities to those forces and the government of Iraq.....	29

- II.** Whether the Iraqis have made the compromises necessary to achieve the broad-based and sustainable political settlement that is essential for defeating the insurgency in Iraq.
- (A) Enacting a broadly accepted hydrocarbon law that equitably shares revenue among all Iraqis.....30
 - (B) Adopting laws necessary for the conduct of provincial and local elections, taking steps to implement such laws, and setting a schedule to conduct provincial and local elections.....31
 - (C) Reforming current laws governing the de-Baathification process in a manner that encourages national reconciliation.....32
 - (D) Amending the Constitution of Iraq in a manner that encourages national reconciliation.....32
 - (E) Allocation and expenditure of Iraqi revenues for reconstruction projects, including delivery of essential services, and implementing such reconstruction projects on an equitable basis.....33
 - (F) Making significant efforts to plan and implement disarmament, demobilization, and reintegration programs relating to Iraqi militias.....33
- III.** A detailed description of the Joint Campaign Plan, or any subsequent revisions, updates, or documents that replace or supersede the Joint Campaign Plan, including goals, phases, or other milestones contained in the Joint Campaign Plan.....35
- (A) An explanation of conditions required to move through phases of the Joint Campaign Plan, in particular those conditions that must be met in order to provide for the transition of additional security responsibility to the Iraqi Security Forces, and the measurements used to determine progress.....35

- (B) An assessment of which conditions in the Joint Campaign Plan have been achieved and which conditions have not been achieved. The assessment of those conditions that have not been achieved shall include a discussion of the factors that have precluded progress.....36
 - (C) A description of any companion or equivalent plan of the Government of Iraq used to measure progress for Iraqi Security Forces undertaking joint operations with Coalition Forces.....36
- IV. Additional information on military, policy, and security forces:
 - (A) The number of battalions of the Iraqi Armed Forces that must be able to operate independently or to take the lead in counter-insurgency operations and the defense of Iraq's territory.....37
 - (B) The number of Iraqi special police units that must be able to operate independently or to take the lead in maintaining law and order in fighting the insurgency.....38
 - (C) The number of regular police that must be trained and equipped to maintain law and order.....39
 - (D) The ability of Iraq's Federal ministries and provincial and local governments to sustain, direct, and coordinate Iraq's security forces independently.....40
- V. The criteria to be used to evaluate progress toward meeting such conditions.....41
- VI. A plan for meeting such conditions, an assessment of the extent to which such conditions have been met, information regarding variables that could alter that plan, and the reasons for any subsequent changes to that plan.....41

VII.	An assessment of the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report, the missions to be undertaken by the Armed Forces in Iraq for such period, and the incremental costs or savings of any proposed changes to such levels or missions.....	43
VIII.	A description of the range of conditions that could prompt changes to the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report or the missions to be undertaken by the Armed Forces in Iraq for such period, including the status of planning for such changes to the levels or missions of the Armed Forces in Iraq.....	44
IX.	A description of the strategy for, and contributions of, United States-led Provincial Reconstruction Teams, including embedded Provincial Reconstruction Teams and Provincial Support Teams, in Iraq that ensures that such United States-led Provincial Reconstruction Teams are supporting the operational and strategic goals of the Multi-National Force – Iraq, and developing the capacity of national, provincial, and local government and other civil institutions in Iraq to assume increasing responsibility for the formulation, implementation, and oversight of reconstruction and development activities.....	45
	List of Acronyms and Abbreviations.....	49

Introduction

This report is submitted pursuant to Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) concerning United States Policy in Iraq, as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181); and Section 1213(c) of the National Defense Authorization Act for Fiscal Year 2009 (Public Law 110-47). The report covers the security, political, diplomatic, and economic measures that are being or have been undertaken primarily during the reporting period October 1 to December 31, 2008 (the Fourth Quarter of 2008).

This report is organized into the following sections: (1) the current mission in Iraq and measures taken to support it, (2) Iraqi progress towards a sustainable political settlement, (3) a description of the Joint Campaign Plan (JCP), (4) Iraqi Security Forces' (ISF) capacity and readiness, (5) criteria used to evaluate progress in that area, (6) the plan for successfully completing the mission, (7) an assessment of the U.S. force levels required in Iraq for the next six months and their missions, (8) a description of conditions that could prompt changes in U.S. force levels, and (9) a description of the strategy for, and contributions of, U.S.-led Provincial Reconstruction Teams in Iraq.

The focus of U.S. policy in Iraq remains helping the Iraqi people build a constitutional, representative government that respects the rights of all Iraqis and has security forces capable of maintaining order and preventing the country from becoming a safe haven for terrorists and foreign fighters. The ultimate goal is a peaceful, united, stable, democratic, and secure Iraq with institutions capable of providing just governance and security for all Iraqis. To accomplish these goals, the efforts of the U.S. government (USG), the Government of Iraq (GOI), governments of other Coalition states, and the international community must be integrated. Active participation of the United Nations (UN), states and international organizations involved in the International Compact with Iraq (ICI), and the Expanded Neighbors of Iraq processes are also critical to success. U.S. policy outlines goals and measures progress along four tracks: security, political, diplomatic, and economic. Responsibility for success in these tracks lies with the Iraqi people.

Security Track

The security situation in Iraq continued to improve during this reporting period. Security incidents have been reduced to their lowest levels since reporting began in early 2004. However, Al Qaeda in Iraq (AQI) retains some ability to conduct occasional high-profile attacks that can cause heavy casualties. Many factors have contributed to enhanced security and political stability, including the increasingly capable ISF aided by the Sons of Iraq (SOI), Coalition forces' support to the ISF, the demonstrated will of the GOI to counter extremists and conduct operations against them, and the rejection of terrorists by the Iraqi people. Civilian deaths in the fourth quarter were down almost 63 percent compared to the same period in 2007. This rate is lower than at any time since early 2004. While high-profile attacks involving personnel and vehicle-borne explosive devices continue, the number of these attacks and resulting casualties from them remain at 2004 levels. For the second year in a row, there was no significant increase in violence during or immediately following Ramadan.

The strength of the insurgency continues to decline, but is still lethal. Many former insurgent leaders have been neutralized or now participate in dialogue with representatives of the GOI and join in the political process. Sunni resistance groups have greatly reduced operations in the past year, as many members have joined SOI formations or decided to participate in Disarmament, Demobilization, and Reintegration (DDR) programs. Many Sadrists seek amnesty and integration, and are leaving Iranian-supported groups such as Jaysh al-Mahdi (JAM) and its associated splinter organizations. AQI is increasingly isolated from the populace, primarily due to its attacks on Iraqi civilians. However, both Sunni and Shi'a extremist groups, though weakened, remain dangerous.

ISF and Coalition forces have made significant gains in securing Iraqi population areas while extending security toward Iraq's borders. The ISF is eliminating many terrorist safe havens and passage points, and significantly slowing the inflow of foreign fighters and weapons into Iraq. The number of ISF battalions in the lead or capable of conducting counterinsurgency operations is steadily increasing, as recent operations in Basrah, Sadr City, Maysan, Diyala, and Ninewa demonstrated. Recent activities in Diyala and Amarah have demonstrated a gradual improvement in the ability of the Iraqi Army to command, control, and support units during operations. However, these operations also highlight the ISF's reliance on Coalition enablers in logistics, fire support, communications, close air support, planning and intelligence, surveillance, and reconnaissance.

UNCLASSIFIED

- 8 -

The ISF's improvement has paved the way for the transition of primary security responsibility from Coalition forces to the ISF and a reduced Coalition forces' presence. Anbar, once an AQI stronghold, transferred to Provincial Iraqi Control (PIC) on September 1. With the transfer of Babil and Wasit provinces to PIC in October, the ISF is now in charge of security operations in 13 of Iraq's 18 provinces. During the quarter, a U.S. Brigade Combat Team, as well as the Polish contingent in Multi-National Division Center (MND-C) and the Georgian brigade in Wasit province, returned home. Coalition forces from Albania, Armenia, Azerbaijan, Bosnia, Bulgaria, Czech Republic, Denmark, El Salvador, Japan, Kazakhstan, Korea, Latvia, Lithuania, Macedonia, Moldova, Tonga, and Ukraine ended their successful missions in Iraq and returned home by late December.

As of December 31, 92,000 SOI were playing a significant role in bringing stability to Iraq. More than 22,000 former SOI have transitioned to the ISF, other ministries, or other non-security education, training, and jobs programs since 2006. Though the rate of SOI transition has slowed, reintegration efforts have been renewed, with Prime Minister Maliki signing an executive order stipulating that the GOI will formally assume responsibility for the SOI. This process began October 1, with approximately 50,000 SOI transferring to Iraqi responsibility in the Baghdad area; another 18,000 in Diyala, Wasit, and Babil provinces will transfer effective January 1. Transfers in the remaining provinces will occur over the coming months. Progress has been encouraging, and the SOI are reconciling with the GOI rather than rejoining extremist groups. This process will require careful oversight to ensure these gains endure.

Despite these developments, security gains in Iraq are fragile and reversible. Although there was a sharp decline in the number of civilians killed from violent acts this period, the number of deaths due to assassinations increased. Assassinations primarily have targeted Iraqi officials. Concern is palpable among the Iraqi judiciary. While no judges were assassinated during this reporting period, six judges have been assassinated in 2008. This threat affects the judiciary's ability to carry out its essential functions. Judges in Mosul have refused to try terrorism cases out of fear for their personal safety. Recent violence against Christians in Ninewa has caused concern among national, regional, and religious leaders. Unchecked, these attacks could undermine current stabilization efforts. Meanwhile, AQI and Special Group leaders' attempts to reignite violence, malign Iranian influence, and dissatisfaction over inadequate government services also present challenges to security.

UNCLASSIFIED

Political Track

During this reporting period, the GOI ratified the Strategic Framework Agreement for a Relationship of Friendship and Cooperation between the United States of America and the Republic of Iraq (“Strategic Framework Agreement”) and the Agreement Between the United States of America and the Republic of Iraq On the Withdrawal of United States Forces from Iraq and the Organization of Their Temporary Activities during Their Temporary Presence in Iraq (“Security Agreement”) with the United States. The Presidency Council approved Iraq’s Provincial Elections Law, and Iraq’s Independent High Electoral Commission (IHEC) prepared for provincial elections on January 31, 2009. Allies of Basrah Governor Wa’eli submitted a preliminary petition to hold a referendum on establishing a single-province Basrah region. Violence against Christians in northern Iraq was indicative of the challenges Iraq’s minority communities face and the need to ensure that such violence does not derail progress toward reconciliation. The situations of internally displaced persons (IDPs) and refugees remained difficult. Several countries in the Middle East increased their diplomatic engagement with the GOI, and preparatory working groups for the next Neighbors’ Ministerial on energy, border security, and refugees convened. The future of the Expanded Neighbors process remains uncertain, however, and no follow-on Ministerial has been scheduled.

Iraq’s cabinet approved the U.S.-Iraq Strategic Framework Agreement and Security Agreement on November 16, with 27 of 37 ministers voting in favor. Shortly thereafter, Iraqi Foreign Minister Hoshiyar Zebari and U.S. Ambassador Ryan Crocker signed the agreements. On November 27, Iraq’s Council of Representatives (COR) ratified the agreements and voted to hold a national referendum on the security agreement in July 2009. The Strategic Framework Agreement sets the foundation for the long-term bilateral relationship between the United States and Iraq. The Security Agreement addresses U.S. military presence, activities, and withdrawal from Iraq. On December 23, the COR passed a resolution on the Coalition, which calls for the withdrawal of the forces of the United Kingdom, Australia, Romania, Estonia, El Salvador, and the North Atlantic Treaty Organization (NATO) from Iraq by July 31, 2009. On December 31, the UN Security Council Resolution (UNSCR) provision that authorized the foreign troop presence expired.

Iraq’s Presidency Council approved the Provincial Elections Law on October 7, after it was passed by the COR. However, this version did not include a provision specifying set-aside seats for minorities. The COR passed an

UNCLASSIFIED

- 10 -

amendment setting aside six seats for minorities on November 3, and the Presidency Council ratified it on November 8. This was the final legislative step necessary to hold provincial elections. The GOI and IHEC are preparing for elections on January 31, 2009. For details on the provincial elections law and election preparations, please refer to Sections (I)(A) and (II)(B).

A debate resurfaced over the future shape of Iraq's federal governance system. Two percent of Basrah's registered voters signed a petition seeking to make Basrah a single-province region and submitted it to IHEC on November 10. According to Iraq's Law on Executive Procedures for Forming Regions, IHEC then maintains for a minimum of 30 days a special register to collect signatures from eligible voters to meet the 10 percent threshold required to proceed with the referendum to form a region. IHEC assisted by establishing 34 centers throughout Basrah to collect signatures from December 15 to January 14. If backers of the region formation proposal reach the 10 percent threshold, their leaders will submit a request to form a region to the Council of Ministers, which then has 15 days to direct IHEC to organize a referendum. IHEC must conduct a referendum within three months, though it can extend that by one month provided it notifies the Council of Ministers of the extension.

Attacks against Christians in Mosul in October illustrated some of the difficulties Iraq's minority communities face. As a result of the violence, many Christians fled the city. Prime Minister Maliki ordered the Iraqi Army and police in the Mosul area to protect members of that community. The GOI also sent over 1,000 police to the city and dispatched a cabinet-level delegation to investigate the situation. Please refer to Section (I)(A) for further discussion of this issue.

Iraqi refugees and IDPs also face significant challenges. The Office of the UN High Commissioner for Refugees (UNHCR) estimates that 4.8 million Iraqis are currently displaced: 2.8 million internally and 2 million in the region. Conditions for the displaced population remain difficult, and the UNHCR and international humanitarian organizations have appealed for additional funds to support their needs. The USG provided \$398.27 million for humanitarian assistance programs for displaced Iraqis in Fiscal Year (FY) 2008. The GOI has facilitated small-scale returns of refugees from Egypt, Jordan, and Syria, and is focusing on preparing for the eventual return of displaced Iraqis. Please refer to Section (I)(A) for further information on IDPs and refugees.

During this reporting period, Iraq expanded and deepened its relationships with regional states. Ambassadors from Kuwait, Bahrain, Jordan, Syria, and the

UNCLASSIFIED

Arab League arrived in Iraq, and there were several high-level official visits to Iraq. Turkey, the GOI, and Kurdish leaders met to discuss common concerns. International working groups on energy, border security, and refugees met to prepare for the next Expanded Neighbor's Ministerial – should one be scheduled. Diplomatic engagement is discussed in more detail in Section (I)(B).

Several political challenges lie ahead for the GOI and Iraqi people. The most pressing may be to ensure that provincial elections are carried out effectively and transparently, and that the newly elected bodies function effectively. This will be followed by preparations for national elections. Iraq has a number of other political challenges: resolving disputed internal boundaries, transitioning the SOI to civilian employment or positions with the ISF, enacting hydrocarbons legislation, and implementing the Law on Accountability and Justice (de-Baathification reform). The USG works closely with the UN Assistance Mission for Iraq (UNAMI) to provide Iraq technical assistance on elections and disputed boundaries.

Economic Track

Iraq's economy improved, although the pace and level of growth differs throughout the country. Growth is largely the result of improved security, increased oil revenue, increased government spending, and gains in some of the smaller sectors of Iraq's economy, such as construction, petrochemicals, and textiles. The International Monetary Fund (IMF) projects 9.8 percent real Gross Domestic Product (GDP) growth in 2008 due largely to high oil revenues in the first half of the year. The IMF forecasts 7.7 percent real GDP growth in 2009 – both higher than the estimated 1.5 percent real GDP growth in 2007. However, recent declines in oil prices will likely dampen real GDP growth. The Central Bank of Iraq (CBI) maintains relatively low levels of inflation through monetary discipline, including exchange rate appreciation and interest rate policies. In November, year-on-year core inflation (which excludes “fuel and electricity” and “transport and communications” prices) was 12.7 percent; year-on-year headline inflation was 6.7 percent. The core inflation rate has been relatively stable over the past year, albeit at higher rates than headline inflation, due to higher food prices. A civil service salary increase that came into effect in June has had a limited impact on inflation thus far due to the high import content of consumption spending and Iraq's appreciating currency. Due to moderated inflationary pressure in 2008, in November, the CBI reduced its policy interest rate (the rate it pays banks for their deposits with the CBI) from 16 percent to 15 percent. The CBI has

continued efforts to appreciate the Iraqi dinar against the U.S. dollar, combating inflationary pressures.

The GOI currently enjoys a relatively stable fiscal situation, largely due to higher-than-projected oil revenues in the first half of 2008. The recent precipitous drop in global oil prices, however, in addition to natural declines in Iraq's currently producing oil fields, has put the GOI on somewhat shakier fiscal footing in the medium term, which means that Iraq will need to be more active in developing its oil production to offset natural decline. As a result, on December 23, the Council of Ministers approved a second revision to the draft 2009 budget proposed by the Ministry of Finance (MOF), cutting expenditures to \$59.5 billion from the original \$78.4 billion budget and the first revised budget's \$67 billion. Based on oil prices of \$50 per barrel and oil exports of two million barrels per day, the revised budget projects revenues of \$42.5 billion, leaving a \$17 billion projected deficit. Of the total budget envelope, \$47.3 billion is for operating expenditures and \$12.2 billion for capital expenditures.

GOI ministries and provincial governments have improved their capacity to spend their capital budgets on infrastructure and other reconstruction activities. We expect the progress seen in 2007 and 2008 to continue in 2009. Nevertheless, budget execution varies across ministries and provinces, and there are still some impediments to spending. U.S. embassy, Provincial Reconstruction Teams (PRTs), and military officials work through programs and groups dedicated to improving budget execution – including the Public Finance Management Action Group – and have daily interaction with ministries and provinces to troubleshoot problems and unlock greater amounts of GOI funds. Please refer to Section (II)(E) for additional discussion of Iraqi budget execution.

Crude oil production averaged 2.37 MBPD during the fourth quarter of 2008, 3.8 percent lower than third quarter production (2.47 MBPD). The decrease comes almost entirely from the southern fields, which are experiencing natural decline with no offsetting new production. The 2008 annual average of crude oil production was 2.42 MBPD, a nearly 15 percent increase over 2007 production levels, and above the GOI's 2008 target of 2.2 MBPD. Crude oil exports averaged 1.79 MBPD during the fourth quarter of 2008, 3.5 percent higher than third quarter exports (1.73 MBPD). The 2008 annual average of crude oil exports was 1.84 MBPD, a roughly 10 percent increase over 2007 export levels, and above the 2008 target of 1.7 MBPD. It is important to note that export levels were lower in the second half of 2008 than in the first half of the year. Further export declines are possible in 2009. Iraqi crude oil prices averaged approximately \$54 per barrel

during the fourth quarter, although the price of Iraqi crude began the quarter at nearly \$90 per barrel and finished the quarter at just over \$30 per barrel. Current prices are well below the \$91 per barrel projection in the 2008 supplemental budget. Plummeting oil prices have led the GOI to substantially revise its 2009 budget, which is now before the COR.

Iraqi officials discussed outstanding issues regarding national hydrocarbon framework legislation in an effort to achieve consensus. According to the Ministry of Oil (MOO), 34 major international oil companies (down from the previously announced number of 35 because Premier was disqualified in September) and six national oil companies pre-qualified to bid in Iraq's proposed first tender for rehabilitating and expanding production at six oil fields and two gas fields. The first tender was started on October 13. The MOO hopes to award the tenders in June 2009. Additionally, the MOO opened a second bid round for exploring, rehabilitating, and expanding production at 11 additional oil and gas fields on December 31, for which the MOO hopes to award tenders in late 2009. Nearly 90 percent of Iraq's proven oil and gas reserves have now been opened for potential development. The same companies are pre-qualified for the second bid round, with the potential for additional pre-qualified companies. All contracts are supposed to be joint ventures with the Ministry's operating companies.

The Iraqi agricultural sector produces about eight percent of Iraq's GDP and employs about 25 percent of the work force. It is the second largest contributor to GDP after oil, and the second largest source of employment (after government service) in Iraq. Agricultural production remains below its potential, mainly because of government policies that are not conducive to increasing productivity and competing in world markets; outdated technology (in plant and animal genetics, fertilizers, irrigation and drainage systems, farm equipment, etc.); inadequate and unstable electrical power and inadequate fuel; degradation of the irrigation-management system; outdated agricultural knowledge and processes; insufficient credit and private investment capital; inadequate market information and networks; and security issues. Consequently, Iraq currently imports from neighboring countries at least 50 percent of its food. The worst drought of the past decade exacerbated the situation during the most recent crop season and severely reduced crop production in the north. Production of wheat and barley, Iraq's two largest crops, decreased by about 50 percent. Rainfall in the northern and central provinces in late November was sufficient to seed and germinate wheat and barley for the coming crop season. Continued normal levels of rainfall should be sufficient to support wheat and barley production of two million and one million metric tons, respectively. Rice production is uncertain, as it depends on irrigation

water allocated by the Ministry of Water Resources. The Ministry reduced the water allocated to rice production during the previous crop season, when water reservoir levels were higher than current levels, and will likely do so again during this crop season.

Iraq works closely with its international partners and creditors. It is on track to successfully complete its current Stand-By Arrangement (SBA) with the IMF in March 2009. During the previous quarter, the IMF Board of Directors favorably reviewed Iraq's progress on the major economic structural reforms that Iraq agreed to implement under the SBA. These reforms include strengthening public financial management and the CBI's accounting framework, restructuring the two largest public banks, reducing subsidies in the oil sector, and conducting a census of public sector employees. In December, as a result of Iraq's satisfactory performance under another review of the SBA, creditors granted the final 20 percent tranche of debt reduction under Iraq's agreement with the Paris Club – bringing total debt reduction to 80 percent.

Iraq benefits from donor countries' financial and technical assistance, soft loans, and debt relief. Please refer to Section (I)(E) for more detailed discussion of international donor assistance in Iraq.

Minister of Trade Al-Sudani is seeking to reorganize his World Trade Organization (WTO) unit and raise its profile to advance Iraq's WTO accession bid. He is pressing the Council of Ministers to approve 32 appointments to the new unit (nearly a three-fold increase in staff). These will include not only Ministry of Trade employees, but also representatives seconded from all ministries that have legislative or other WTO accession responsibilities. The Council of Ministers still must approve the plan, but Trade officials do not expect strong opposition. Passing a WTO-compliant customs law and strengthening the ability to implement the new customs regime would mark a significant step forward on Iraq's WTO Legislative Action Plan. Embassy Baghdad continually presents the USG view that a "low and flat" tariff structure both encourages trade and is the easiest to enforce, but the Iraqi MOF fears that low tariff rates could result in import substitution and lost customs revenue. Therefore, the likely result will be a complex and detailed tariff schedule intended to provide protection to Iraqi industries.

In view of the gains Iraq has made in the political and security spheres, much of its new engagement with its neighbors and the international community aims at greater economic cooperation and lays the groundwork for increasing

private-sector trade and investment. Improvements in security have modestly increased private-sector interest in investing in Iraq. Several high-level gatherings on investment opportunities provided venues for these discussions. On November 1, Deputy Treasury Secretary Robert Kimmitt, Deputy Commerce Secretary John Sullivan, and Assistant U.S. Trade Representative Mike Delaney participated in the Iraqi-U.S. Dialogue on Business and Investment. During the day-long event, which included American and Iraqi business executives, senior GOI officials, the U.S. Chamber of Commerce, and the World Bank, participants candidly discussed key challenges to doing business and investing in Iraq.

Participants identified U.S. visa procedures for Iraqi nationals, the lack of political risk insurance, the absence of implementing regulations for the National Investment Law, opaque dispute resolution mechanisms, high interest rates charged by Iraqi banks, and unwillingness by American banks to move Iraq-bound transfers as significant obstacles to increased business and investment links.

The Dialogue helped advance the bilateral discussion on reforms and conditions needed to create a better investment climate in Iraq. Participation by the private sector, U.S. Chamber of Commerce, and World Bank reinforced the importance of these reforms and provided further credibility to our ongoing bilateral dialogue with the Iraqis on private sector development. The USG and GOI agreed to hold another Dialogue on Economic Cooperation, in the first half of 2009.

The wireless telecommunications industry has grown rapidly and is an exemplar of private investment in Iraq's economic development. The three licensed nationwide carriers claim over 13 million subscribers, perhaps three-quarters of the total subscriber market and almost half the total population, compared to less than three percent of the total subscriber market and less than 1.5 percent of the total population in 2003. Almost all of this growth is a result of private investment. Uncertainties about regulatory reform have not slowed private investment. However, recent public statements by Iraqi officials have raised concerns that strong, fair, and transparent regulation, implemented by an independent regulator, may not be established in a timely fashion.

On December 22, the UN Security Council unanimously adopted Resolution 1859 extending the Development Fund for Iraq (DFI) for one year to December 31, 2009. The resolution protects Iraqi oil cargoes and specified revenues and DFI financial assets from legal attachment. The International Advisory Monitoring Board, whose membership includes the IMF and World Bank, will continue to

monitor and report to the UN Security Council on the DFI. Adoption of the resolution followed the signing of the U.S.-Iraq bilateral Security Agreement, in which the United States agreed to assist Iraq with its request for an extension.

I. The current military mission and the diplomatic, political, economic, and military measures that are being or have been undertaken to successfully complete or support that mission.

The United States and Iraq have adopted agreements that reflect the two countries' mutual interests. The Security Agreement governs the presence, status, and withdrawal of U.S. forces in Iraq following the expiration of the Multi-National Force – Iraq (MNF-I) mandate in UNSCR 1790.

(A) Efforts to convince Iraq's main communities to make the compromises necessary for a broad-based and sustainable political settlement

The USG supports efforts by Iraq's central and provincial governments to encourage tolerance and cooperation among Iraq's various communities through the engagement of senior officials based in Washington, D.C. and in Iraq, as well as through regular interactions between staff at the U.S. embassy and PRTs and Iraqi officials and community representatives. This section discusses the minority representation amendment to the Provincial Elections Law, GOI efforts to investigate recent violence against Christians in Mosul, the establishment of a committee to address the status of Tamim Province, the ongoing transition of SOI to ISF and civilian employment, and the GOI's assistance to refugees and IDPs and its steps to encourage returns.

The COR passed the Provincial Elections Law on September 24, and the Presidency Council ratified it on October 7. However, provincial election issues remained on the COR's agenda throughout October because the law did not include provisions for minority representation set-aside seats. In late September, Prime Minister Maliki called on the COR and IHEC to "find a solution," and stated that "minorities should be fairly represented in the provincial councils and their rights guaranteed." The COR passed an amendment establishing six minority seats by an overwhelming majority on November 3.

UNCLASSIFIED

- 17 -

The amendment allocates one seat each for Christians and Sabeans in Baghdad; one each for Christians, Yezidis, and Shabaks in Ninewa; and one for Christians in Basrah. This amendment applies only to the 2009 provincial elections, and calls for a future allocation of seats to be made based on the results of the upcoming census. For more information about provincial elections, please refer to Section (II)(B).

In response to violence in late September and early October against Christians in Mosul, the GOI and Prime Minister Maliki took swift action to increase security for these communities. While attending a conference on Islamic-Christian dialogue, the prime minister said, "We will make all efforts to keep our Christian brothers honored and respected in Iraq, for they are an essential component of its society." The Organization of the Islamic Conference, the UN, the United States, and several prominent Christian and Muslim leaders from around the world condemned the attacks. Iraqis from across the political spectrum expressed solidarity with the Christian community.

The GOI ordered the Iraqi Army and police in the Mosul area to protect members of the Christian community, sent over 1,000 police to Mosul, and dispatched a cabinet-level delegation to investigate the situation. The delegation completed its investigation, but the results have not been released. The perpetrators of the attacks have not been confirmed, although the nature of the attacks is similar to violence perpetrated by AQI in the past.

Additionally, the GOI took steps to help those who had fled the area as a result of the violence. The Iraqi Ministry of Displacement and Migration (MODM) coordinated the humanitarian response, working with international organizations. The GOI announced that it would give each family that returned one million Iraqi dinars (approximately \$865) and each family that is still displaced 300,000 Iraqi dinars (approximately \$250).

The status of Tamim Province remains contentious. The Provincial Elections Law exempted Tamim Province from the January provincial elections and established a committee on Kirkuk, which was created November 2. The committee consists of two Arabs, two Kurds, two Turkmen, and one Christian COR member. The UN has agreed to provide technical assistance to the committee. The committee must submit a report by March 31, 2009 on (1) mechanisms for sharing administrative and security powers among the components of the province, (2) property restitution, and (3) demographics. The COR will consider a law governing provincial elections in Tamim Province after receiving

UNCLASSIFIED

UNCLASSIFIED

- 18 -

the committee's recommendations. If, however, the COR does not enact such a law, the three presidencies (President, Council of Ministers, COR) will, with UN assistance, specify the appropriate conditions for provincial elections in the province. The status of Kirkuk will remain "as is" until provincial elections occur. The new provincial powers law will not apply to Tamim Province until elections are held.

The transition of SOI into the ISF and private or public sector employment is important in advancing accommodation between Iraq's main groups. Security gains, partially as a result of SOI contributions, have reduced the need for the program in its current form. The GOI agreed to transition 20 percent of the 95,000 SOI to the ISF and facilitate employment for the remainder through job and vocational training programs. On October 1, the GOI began assuming responsibility for the program with the transition of approximately 50,000 SOI members from Coalition Force control in the Baghdad area. Transfers in the remaining provinces will occur over the coming months. During the transition period, Coalition Forces will monitor the program, including overseeing payment by the GOI to those SOI who are on contracts the GOI now controls.

On December 23, the Speaker of the COR, Mahmoud al-Mashadani, resigned. During the reporting period, in addition to the provincial elections law and the strategic agreements with the United States, the COR enacted a variety of legislation, including on: the foreign service, the Ministry of Water Resources, the High Commission for Human Rights, an indefinite extension of the validity of Coalition Provisional Authority Order No. 74 of 2004 regarding the commission on financial services, the Ministry of Education, the unified pension law No. 27 of 2007, promotions in the health and medical professions, and public medical clinics.

Accommodation at the provincial and local level, in addition to the national level, is important for Iraq's continued security, political, and economic progress. PRTs play an important role in helping Iraqis achieve accommodation. As of December, PRTs in Iraq included approximately 800 civilian and military personnel working in all 18 provinces. The PRTs facilitated dialogue between local and national leadership to promote the equitable use of Iraqi resources for the benefit of all Iraqis and to improve funding and essential services.

Sectarian and ethnic tensions in Diyala province remain serious. Kurdish-GOI tensions increased in September due to the proximity of Kurdish peshmerga and Iraqi government forces in northern Diyala. In addition, Sunni leaders have alleged that Iraqi government forces have targeted them in security operations.

UNCLASSIFIED

UNCLASSIFIED

- 19 -

Despite these larger problems, there has been some success at tribal reconciliation in several areas, especially around Muqdadhiyya, Diyala's second largest city and commercial center, where recent agreements among tribes have allowed IDPs of various ethnic groups to return to their villages. The PRT facilitated a tribal reconciliation meeting in the provincial capital Baqubah that Minister of Tribal Affairs Muhammad al-Uraibi attended. Al-Uraibi met with key leaders in the province, including the Governor and the province's 17 paramount tribal leaders, as well as other key clan leaders. Approximately 450 dignitaries from the tribes, provincial government, and security forces attended. Speeches focused on the need for parties to work together to build a better, more secure future for Iraq. Minister al-Uraibi highlighted GOI efforts to work through local support councils to focus government projects and assistance on the priorities of the people in local areas. The Minister of Tribal Affairs' attendance at this event may signal increasing GOI willingness to deal with tribal leadership. The Diyala PRT will continue its engagement with Sunni and Shi'a tribal leadership to sustain the improved relationship.

The number of Iraqis displaced in the region and inside Iraq remained stable during this reporting period, continuing a trend since fall 2007. However, displacements did occur as a result of early October attacks against Christians in Mosul, which led over 1,800 Christian families to flee the city. Most fled to other parts of Ninewa, with some also going to Dahuk, Erbil, Kirkuk, as well as to Syria. The GOI took immediate steps to increase security in the city and, in coordination with the UN and international humanitarian organizations, provided humanitarian assistance to the newly displaced. UNHCR reported in November that approximately 300 Christian families had returned to Mosul. The International Organization for Migration reports that there are 2.8 million Iraqi IDPs, about 1.6 million of whom were displaced following the February 2006 Samarra Mosque bombing.

UNHCR and other humanitarian organizations continue to report increasing poverty among the refugee and IDP populations. In anticipation of rising needs in 2009, on November 19, the UN launched a \$547 million appeal for humanitarian assistance for displaced Iraqis in and outside of Iraq. USG contributions for humanitarian assistance to displaced and conflict-affected Iraqis through international organizations and non-governmental organizations exceeded \$398 million in FY08, and we expect to contribute significantly again in FY09.

The GOI and the USG are focusing on preparing for the return of displaced Iraqi refugees and IDPs. UNHCR reports that approximately 185,000 IDPs and

UNCLASSIFIED

UNCLASSIFIED

- 20 -

23,000 refugees returned during 2008. Security is the primary consideration for the displaced in choosing whether to return. Returns have been successful in neighborhoods where the ISF, local councils and committees, and the MODM have all been actively involved. The Iraqi government has undertaken a number of initiatives to support the return of refugees and IDPs. In August, the GOI began implementing a prime ministerial decree that laid out GOI policy on property restitution and eviction of illegal squatters (coupled with financial enticements for squatters to vacate property they are occupying) from private property. In September, the GOI set up two centers to assist returnees with property restitution claims. The center set up by the ISF in at the Muthanna Airbase in west Baghdad is operating efficiently; a center set up by the MODM in Rusafa remains under-resourced. In November, MODM set up a third returnee assistance center, also in Karkh, with management and personnel support from the International Medical Corps (IMC) and funding from the United States Agency for International Development (USAID)/Office of U.S. Foreign Disaster Assistance. The IMC-supported center is streamlining bureaucratic procedures associated with processing property restitution claims and issuing returnee grant payments. It will likely be the model for future returnee assistance centers elsewhere in Iraq. The GOI undertook a number of short-lived, high publicity initiatives in the past year to repatriate via airlift several hundred refugees from Egypt, Syria, and Jordan. UNHCR has supported several hundred refugees who have opted to return voluntarily with return stipends and transport assistance.

The USG works closely with the GOI and UN to prepare Iraq for the eventual return of its displaced citizens. In October, the State Department's Senior Coordinator for Iraqi Refugee Issues Ambassador James Foley traveled to Iraq and Geneva to assess the role that the United States can play in facilitating returns. Ambassador Foley met with senior GOI officials, including the heads of various ministries, and visited a returnee assistance center in Baghdad.

In addition to providing assistance to the displaced and preparing for returns, the USG also works to resettle vulnerable Iraqi refugees in the United States. The State Department works closely with the Department of Homeland Security on this issue. The USG has ramped up its refugee processing capacity and is aiming to resettle at least 17,000 Iraqi refugees in FY09. In FY08, Section 1244 of the National Defense Authorization Act created a special immigrant visa (SIV) category for Iraqis who have worked for or on behalf of the USG. Embassy Baghdad started processing applications on July 24 for this program, which makes available 5,000 SIVs per year from FY08 through FY12 for Iraqis who have experienced serious threats as a result of working for, or on behalf of, the USG in

UNCLASSIFIED

Iraq. In FY08, 169 SIVs were issued to Iraqi nationals under the section 1244 program. As of December 31, 190 principal Iraqi applicants have been issued SIVs for FY09.

(B) Engaging the international community and the region in efforts to stabilize Iraq and to forge a broad-based and sustainable political settlement

During this reporting period, the Iraqi and U.S. governments worked with the international community to promote security, economic growth, and political progress in Iraq.

At the beginning of the reporting period, 29 countries, including the United States, MNF-I coalition members, and NATO contributed to stability and security operations in Iraq. The NATO Training Mission – Iraq (NTM-I) complements U.S. training efforts, providing a variety of mentorship programs for the ISF. Its core contributions are institutional training for Iraqi military officers, gendarmerie training for the National Police (NP), and mentoring and training in support of national command and control centers. NTM-I has trained thousands of GOI security personnel in areas such as civil and military staff training, police training, and officer and non-commissioned officer leadership training. Iraq recently affirmed the value of the NTM-I mission and proposed continued NATO-Iraq cooperation. NATO has agreed to continue its mission in Iraq in 2009 and to expand its support in areas such as navy and air force officers training, advanced forensics, and border security in response to Prime Minister Maliki's requests. Additionally, the GOI passed legislation in December inviting the United Kingdom, Estonia, Romania, and Australia to continue their missions in Iraq until July 2009.

The international community demonstrated support for Iraq through various multilateral and bilateral initiatives including the ICI, the International Reconstruction Fund Facility for Iraq (IRFFI), and UNAMI. The GOI expanded its relationships with countries in the region and beyond through a number of high-level visits and ambassadorial appointments, discussed below.

UNAMI, headed by Special Representative of the Secretary General Staffan de Mistura, is active in Iraq. It works with the GOI to address the sensitive issue of disputed internal boundaries, including the future of Kirkuk. A second set of UNAMI proposals on disputed internal boundaries is expected to be released after

UNCLASSIFIED

- 22 -

the January 2009 provincial elections. UNAMI provides technical assistance for the provincial elections preparations and is expected to provide assistance for the national elections to be held in late 2009. UNAMI assisted the COR in developing an amendment to the Provincial Elections Law to include mandatory seats for minority groups in provincial elections.

Building on plans to expand its footprint in Iraq, UNAMI is preparing to station personnel in six U.S. PRTs in Kirkuk, Basrah, Mosul, Najaf, Ramadi, and Samarah. There currently are over 160 civilian staff in Baghdad, 40 in Erbil, and five in Basrah.

As a demonstration of its commitment to and support for UNAMI, on November 3 the GOI agreed to an initial payment of \$25 million towards the cost of a new UN Compound in Baghdad. Prime Minister Maliki subsequently said an additional \$25 million would be forthcoming, thereby meeting the original Iraqi pledge to contribute 50 percent of the total cost of the compound.

The United States is committed to supporting UNAMI's work, and has signed a new agreement with the UN to provide security services to UN personnel in Iraq. This replaces a 2005 agreement that terminated at the same time as the Multi-National Force mandate under UNSCR 1790 on December 31.

As part of the Neighbors of Iraq Process, working groups on energy, refugees, and border security met in Istanbul on October 10, Amman on November 20, and Damascus on November 23, respectively. The Energy Working group focused on energy assistance to Iraq, petroleum exports, and energy-sector infrastructure development. Representatives of neighboring countries, the UN, the Arab League, the Organization of the Islamic Conference, the International Red Cross and Crescent Societies, as well as UN Security Council members attended the Refugees Working Group. At the Border Security Working Group, the U.S. delegation, participating as an observer, called upon Iraq's neighbors to renew previous commitments to stop the infiltration of foreign fighters into Iraq and to end support for militants seeking to undermine the Iraqi government. Western countries, Russia, and most of Iraq's neighbors attended the meeting; Saudi Arabia was notably absent.

At its November 10 meeting, the General Affairs Council of the European Union (EU) reaffirmed EU support for Iraq. The Council agreed to extend the mandate of the EUJUST LEX rule of law program, and stated that the EU is committed to developing its partnership with Iraq in accordance with the ICI. The

UNCLASSIFIED

UNCLASSIFIED

- 23 -

Council also noted its concerns about the human rights situation, welcomed the GOI's commitment to take action, and voiced support for UNAMI's work in that field. On November 27, EU member states agreed to accept up to 10,000 Iraqi refugees, many of them currently living in Jordan and Syria.

A number of high-level Middle Eastern leaders visited Iraq during this reporting period. In the first visit of an Egyptian foreign minister since 1990, Foreign Minister Ahmed Aboul-Gheit visited Baghdad on October 5, to discuss the possibility of opening an Egyptian embassy in Baghdad and oil sector cooperation. Crown Prince of the United Arab Emirates Sheikh Mohammed bin Zayed al-Nahayan visited Iraq with the United Arab Emirates' Defense and Interior Ministers on October 7, to confirm his country's support for Iraq. Bahraini Foreign Minister Sheikh Khaled bin Ahmed al-Khalifa visited Baghdad on October 18, and discussed ways to strengthen Iraq's ties with its Arab neighbors. Foreign Minister Sheikh Khaled urged Gulf countries to forgive outstanding Iraqi debt.

Several new Arab ambassadors arrived in Iraq. The first was United Arab Emirates Ambassador Abdullah Al-Shihi, who arrived in Baghdad during the previous reporting period (on September 4). The Arab League's Ambassador to Iraq, Hani Khalaf, arrived October 6; the previous Arab League ambassador left in January 2007, reportedly complaining of a lack of Arab support to the GOI. Khalaf has called for a more active Arab role in Iraq. Syria's first ambassador to Iraq in 29 years, Nawaf Aboud al-Sheikh Faris, arrived in Baghdad on October 13. He was followed October 15 by Bahrain's Ambassador Salah Al-Maliki and Jordan's Ambassador Na'if Al-Zeidan. Kuwait's first ambassador to Iraq since 1990, Ambassador Ali al-Mou'min, formally assumed his duties in Baghdad on October 22.

A Turkish delegation led by Special Envoy for Iraq Murat Ozcelik met with Iraqi leaders in Baghdad on October 14, amid tensions over Turkish military strikes on suspected Kurdistan Workers' Party (PKK) targets in northern Iraq. Prime Minister Maliki, President Talabani, and Kurdistan Regional Government (KRG) President Barzani met with Ozcelik. Prime Minister Maliki's office said Maliki insisted on increased cooperation in dealing with PKK rebels operating along the Turkey-Iraq border. Reflecting increased coordination of efforts to address PKK issues, the GOI hosted a U.S.-Turkey-Iraq trilateral meeting November 19, which a KRG representative attended.

Iraqi Foreign Minister Hoshyar Zebari visited Damascus on November 12, to discuss bilateral relations with Syrian President Bashar al-Assad. Foreign

UNCLASSIFIED

Minister Zebari emphasized that the Iraqi government opposes any action or policy that would make Iraq a staging point for any offensive military operations against neighboring countries and defended the Security Agreement with the United States for the protections it provides for Iraqi sovereignty.

(C) Strengthening the capacity of Iraq's government ministries

Increased U.S. technical assistance to Iraq on budget execution is paying off. Iraq is on track to spend almost 70 percent more of its overall budget than it did in 2007. Supported by the Embassy's Public Finance Management Action Group, PRTs play an important role promoting budget execution by working with provincial officials to improve budget planning and commitment of funds. In October, approximately 75 PRT representatives and military personnel representing 23 PRTs, embedded PRTs, and Regional Embassy Offices and MNF-I Strategic Effects (CJ-9) attended a workshop on how to work with their provincial contacts to promote budget execution. The program bundled the results of several USG-funded programs in Iraq into a more complete package. An increasing number of young Iraqis are gaining training and experience in budget management due to the efforts of PRTs and other USG-funded programs. For more information on increased budget execution, please refer to Section (II)(E).

In October, provincial officials from across Iraq met in Erbil for the Governorates Accounting and Project Tracking System (GAPTIS) National Users Conference. GAPTIS, developed by USAID's Local Governance Program, is an automated accounting and project tracking system that gives provinces the capability to track project information related to provincial capital investments and generate financial reports. The conference provided an opportunity for GAPTIS users to exchange information on best practices and build a nationwide community of users. The conference drew 120 participants, including the Najaf Provincial Council Chairman, the Governor of Anbar, Provincial Council deputy chairmen, Provincial Council members, as well as accounting and project planning unit heads. Participants discussed their GAPTIS user needs from multiple perspectives, including their financial, contracting, and reporting requirements. Najaf province received the "GAPTIS Province of the Year" award for its groundbreaking work using the GAPTIS system.

The first Iraq-U.S. Physician Partnership Program, sponsored by the Department of Health and Human Services, concluded on November 21, in Washington, DC. Twenty-seven Iraqi physicians participated in three-week

observer programs at one of five clinical host sites – Children’s National Medical Center, Health Resources and Services Administration, Henry Ford Health Systems, Indian Health Services, and Johns Hopkins. This program exposed Iraqi physicians to advances in evidence-based medicine and quality systems of care so that they can apply and share this knowledge in their clinical practice settings. All teams expressed appreciation for the program, and noted how impressed they were with the doctor-patient and doctor-staff relationships and the competency of American nurses. The Iraqi Ministry of Health (MOH) paid all program costs.

The Embassy’s Office of Constitutional and Legislative Affairs (CLA) facilitated several activities intended to strengthen and develop the capacities of GOI entities authorized by the Iraqi Constitution to develop and consider laws. Technical assistance to the COR during the reporting period included training courses on executive oversight to the Education, Health, Finance, and Martyrs committees. Courses on legislative drafting were provided to COR members and staff in December. This quarter CLA prepared an initial assessment on the need for legislative institutions to develop and use a Legislative Document Management System. The assessment was prepared after consultations with 12 COR standing committee members and their staff. In addition, CLA initiated a technical committee of the Council of Ministers, COR, and Presidency Council to evaluate the technical infrastructure of the GOI to support the implementation of a Legislative Document Management System. CLA staff worked to implement the Electronic Document Management System in Communications Security to bring transparency and efficiency to the administrative heart of the GOI. Other CLA activities in this quarter included: technical assistance to the Council of Ministers Secretariat to develop an archiving and coding system; teaching project management skills; and expanding use of the Council of Ministers Secretariat website to deliver information and share messages.

The Iraqi Civil Service Committee (CSC) was created to establish a Federal Civil Service Commission (per section 107 of the Constitution) which will implement a new civil service system. The CSC is an inter-ministerial committee with members appointed by the Prime Minister. A USAID National Capacity Development advisor from the *Tatweer* program was appointed by the Prime Minister to the CSC. *Tatweer* advisors provide technical and logistics support, assist the CSC in establishing a Federal Civil Service Commission, assist the CSC in reviewing the current civil service system, and organize workshops and study tours for CSC members. Working with the Iraqi inter-ministerial committee, *Tatweer* has assisted the CSC in completing the first draft of a Civil Service Reform Law which includes the principles of strong federal civil service

commission, human resource and policies management, performance management, and decentralization.

On December 4 and 5, Kirk Miller, General Sales Manager of the Foreign Agricultural Service at the U.S. Department of Agriculture, led a delegation to Baghdad to participate, with the senior staff of the Iraqi Ministries of Agriculture, Higher Education, and Water Resources, in Iraq's Agricultural Extension and Revitalization Conference. The two-day conference established the ground work for collaboration among the stakeholders in support of implementing phase two of the Agricultural Extension and Revitalization program in the next two years. Also during this quarter, the Prime Minister's office approved the Agricultural Capacity Development and Strategic Planning Center. *Tatweer* advisors recommended this \$5.8 million initiative to the Minister of Agriculture. In October, the Ministry of Agriculture announced a plan to establish four new provincial Capacity Development centers to handle all capacity development activities. Initial centers will be opened in Baghdad, Babylon, Mosul and Basrah. Ministry of Planning and Development Cooperation approval for the proposal is pending.

The Vice President's office Director General for administrative services, chief of staff, and Director General for media and communication received the second in a series of one-on-one coaching sessions on public affairs development. *Tatweer* advisors designed and delivered to the Vice President's office an assessment survey questionnaire that will be used to gather data in preparation for creating a capacity development plan. The Vice President's office has solicited *Tatweer's* help in creating linkages with reputable institutions, such as the Dubai School of Government, in an effort to strengthen staff capacity in public management.

In November, the Ministry of Municipalities and Public Works held its first workshop on the benefits of the Human Resources Management System designed to make workflow and payroll functions more efficient. *Tatweer* facilitated this day-long workshop. It drew representatives from the Ministries of Water Resources, Electricity, Oil, Displacement and Migration, Human Rights, and Health; and from the National Center for Consultancy and Management Development, the Council of Ministers Secretariat, and the Al-Quds School. This tool for sharing best practices across the ministries signaled further progress in Iraq's commitment to reform the civil service and modernize the skills of public officials to meet international standards. As a result of the workshop, the Ministries of Agriculture, Planning and Development Cooperation, and Health, and the National Center for Consultancy and Management Development have adopted the Human Resources Management System tool.

(D) Accelerating the delivery of basic services

Potentially available electrical generating capacity increased by less than four percent between October-December 2007 and the same period in 2008. However, the Ministry of Electricity was able to operate its generating units at a higher percentage of their potential capacity. As a result, average daily supply increased by nearly 15 percent between the two periods.

In the water sector, most USG-funded projects have been completed. The last remaining major potable water project, a water treatment plant for Sadr City, was completed during the quarter. Work continued on the one remaining major sewage project, which will serve Fallujah.

In the health sector, the MOH is making modest gains in healthcare delivery. The MOH public health awareness initiatives and responses to disease outbreaks have been effective this year. The MOH placed educational spots in print and electronic media (for example, using mass cell phone text messaging on health education). External organizations are also engaged, and UNAMI published a document on public health initiatives, including immunization rates, women's health, and infant mortality statistics.

In the transportation sector, the GOI has a comprehensive plan to develop ground, air, and water transportation. Efforts continue toward revitalizing the Port of Umm Qasr as a core element in developing a modern intermodal transportation system. The U.S. embassy Office of the Transportation Attaché and MNF-I are working with the GOI to improve efficiency, security, and throughput at the port. Aviation is growing at a rapid pace. Mosul Airport began regularly scheduled Iraqi Airways flights in September. The twice-weekly flights to Baghdad represent the first commercial air service in Mosul since the first Gulf War. The GOI depends heavily on contractor support for air traffic controllers, but air traffic controller training takes place at Basrah and Baghdad Airports, as well as at the Baghdad Area Control Facility (BACC). All airspace in Iraq will be returned to Iraqi control effective January 1. Iraq has asked the United States to assist with air traffic control services until it is fully capable of controlling its airspace. At Basrah Airport, a full U.S.-funded suite of radar and navigational aids is complete and undergoing flight checks. This will equip Basrah Airport with the tools necessary to meet commercial operations needs. In early October, Iraqi Airways took delivery of the first new aircraft in over 20 years. This first Bombardier CRJ-900 represents the beginning of the rebuilding of the Iraqi Airways fleet.

(E) Securing the delivery of pledged economic assistance from the international community and additional pledges of assistance

The international donor community looks to the ICI as a framework for directing their assistance to Iraq. As Iraq lives up to its responsibilities under the ICI, many outstanding creditors have moved forward with debt relief agreements with Iraq. The United Arab Emirates is reviewing for final signature a bilateral agreement to finalize its cancellation of an estimated \$7 billion in Saddam-era debt. With that agreement, approximately \$25 billion in Iraqi debt will have been cancelled since the launching of the ICI in May 2007, including about \$12 billion from Russia, \$3.2 billion from the former Yugoslav republics, and \$2.3 billion from Bulgaria.

Total assistance pledges from non-U.S. sources (countries and institutions) are now \$17 billion. This represents \$14.58 billion in pledges made at the Madrid Donors Conference in 2003 (including some \$10.05 billion in soft loans, trade credits, or balance of payments support facilities), plus \$2.42 billion in pledges made at or since the launching of the ICI (including \$1.7 billion in soft loans from Korea, Italy, and Iran). International donors have committed more than \$5.56 billion in grant or direct assistance, \$300 million more than total pledges for such assistance. Japan is the largest donor after the United States, with \$5 billion in pledges: \$1.5 billion in grants and \$3.5 billion in soft loans (of which \$2.1 billion has been committed). The European Commission is the third largest donor with about \$1.2 billion in disbursements since 2003. The United Kingdom, Italy, Spain, Denmark, Canada, Australia, and Korea also maintain large assistance programs. Although no total figures have been published, anecdotal reports indicate that soft loan assistance from Iran is on the rise and may now exceed \$300 million against an ICI pledge of \$1 billion.

In its October 31 report, the European Commission said that it planned to provide about €94 million (about \$140 million) in new assistance to Iraq during 2008. This is in addition to €829 million (about \$1.2 billion) in assistance provided from 2003 through 2007. That included about €120 million for humanitarian assistance, economic reconstruction, and rule of law. The overall objectives of the European Community's 2008 assistance were to strengthen the capacity of Iraqi institutions and improve quality of life through the provision of basic services and specific support for displaced persons. Since 2003, 77 percent of the European Commission's assistance has been channeled through the IRFFI, a multilateral donor assistance facility. It delivered 23 percent of its assistance

bilaterally, including nine percent for economic reconstruction and rule of law projects and 14 percent for humanitarian assistance.

At the end of September, the World Bank and the UN Development Group provided updates on the operations of their respective Iraqi Trust Funds under the IRFFI. The World Bank Trust Fund was composed of \$556 million in resources, of which \$494 million is from donors and \$62 million is interest on deposits. Total disbursements for completed or semi-completed projects amounted to \$192 million. A total of \$1.332 billion had been deposited in the UN Development Group Iraq Trust Fund, of which \$1.111 billion had been approved for 141 projects and joint programs. About \$929 million of this funding is committed. The UN's new Strategy for Iraqi Assistance, signed in Baghdad on August 18, aims to accelerate the pace of project approvals, the commitment and disbursement of funds, and completions, while infusing all UN programs with a focus on three priority themes: decentralization, public sector reform, and public financial management.

The next IRFFI Donors Committee will be in Naples, Italy in February, 2009. Donors will assess progress made under the IRFFI since their October 2007 meeting in Bari, Italy, and discuss how to best transition when the IRFFI closes on December 31, 2010. Denmark has agreed to take over the Chairmanship of the IRFFI Donors Committee from Italy.

On October 23, the Baghdad Coordinating Group (comprised of Iraq and its major international donor partners) received an eight-page update on Iraq's progress toward achieving its commitments under the ICI. To meet ICI goals for improved public resources management, the MOF has developed a three-year action plan and will be supported by the World Bank under a new cooperation agreement to be signed in February 2009. To ensure accountability for oil revenues, the GOI is implementing the modalities of the Extractive Industries Transparency Initiative. In support of civil service reform, the GOI is developing its own ministerial capacity building program with the support of the UN and its international partners (including USAID's Tatweer program). The GOI and the Organization for Economic Cooperation and Development are working together with support from the UN and other international partners to improve Iraq's investment climate.

A Performance Management Review of the ICI was completed. The way in which the ICI Secretariat works with the rest of the government has been revised. The Prime Minister's Advisory Committee is now responsible for the Policy

Planning Unit of the ICI. The Secretariat and the Advisory Committee will collaborate to coordinate and streamline GOI approaches to long term planning, including the ICI, the National and Provincial Development Strategies and the three, five, or 10-year plans of particular ministries.

Iraq's Minister of Planning and Development Cooperation, Dr. Ali Baban, has the GOI lead for implementing the principles of the Paris Declaration for Aid Effectiveness. The declaration emphasizes the importance of host country ownership and leadership over its own development process, eliminating duplication of efforts, aligning donor contributions with partner country priorities as expressed in a national development strategy, and mutual accountability. It commits donors to use host country systems for implementing programs and to provide multi-year aid commitments to support host country planning. International donors have agreed to Terms of Reference which state that the ICI and Iraq's own National Development Strategy will guide efforts to implement the Paris Declaration.

(F) Training Iraqi security forces and transferring additional security responsibilities to those forces and the government of Iraq

As of November 1, Iraq's Security Forces numbered approximately 600,000 in the Ministry of Interior (MOI), Ministry of Defense (MOD), and the Iraqi National Counter-Terrorism Force. The MOD has approved the counterinsurgency force, which will include 14 Army divisions (13 infantry and one mechanized) and support forces; a Navy of 3,600 personnel, including two marine battalions; and an Air Force of 3,700 personnel. The Iraqi National Counter-Terrorism Force Brigade projected end strength is 4,700. Further growth in the military structure appears likely, given the need to train tactical units in engineering, signals, intelligence, surveillance, reconnaissance, and medical evacuation. Total ISF requirements are expected to grow to between 609,000 and 646,000 by 2010. Recruiting and accession of personnel are on track to meet force structure goals; however, other factors may prevent attainment of those goals. The MOI struggles with training throughput due to rapid hiring and a limited number of training facilities compared to the large backlog of untrained personnel, while the MOD faces potential personnel challenges due to a hiring freeze caused by budget constraints and end-strength authorizations.

Accelerating the growth of logistical units and pursuing enabling capabilities is a top priority, as is the effort to expand ministerial capacity within the MOD and

MOI. Multi-National Security Transition Command – Iraq advisory teams work closely with both security ministries to improve the accuracy and frequency of their personnel reporting systems. The number of MOI personnel assigned exceeds personnel trained, as rapid hiring has outstripped training capacity and throughput. Also, as the GOI transfers additional missions to the MOI (e.g., Oil Police, Electricity Police, and Facilities Protection Service), personnel are transferred with limited training and inadequate equipment. Efforts to expand MOI training throughput will help remedy this shortfall.

The GOI has assumed broader responsibility for and increasing fiscal commitment to its security forces and to MOD and MOI programs. Current year budget execution, however, is a concern. While the MOI is improving its ability to obligate its budget, the MOD struggles, particularly in the areas of support, sustainment, and infrastructure. Inter-ministerial budget coordination with the MOF is improving but remains problematic due to cumbersome procedures and IMF constraints. The steady state organizations for both the MOI and MOD beyond the year 2012 will continue to face significant funding challenges based on current budget projections.

II. Whether the Iraqis have made the compromises necessary to achieve the broad-based and sustainable political settlement that is essential for defeating the insurgency in Iraq.

(A) Enacting a broadly-accepted hydrocarbon law that equitably shares revenue among all Iraqis

Although there is no formal hydrocarbon revenue sharing law in place, *de facto* the GOI distributes revenues equitably. Funds are allocated directly to provincial governments for capital investment, reconstruction, and essential services based on provincial population. Non-KRG provinces have direct spending authority over more than \$6 billion allocated through the base and supplemental budgets in 2008, as well as unexpended funds rolled over from previous years. The KRG receives a 17 percent share of non-sovereign expenditures. The GOI is discussing a four-law package that includes a national hydrocarbon framework law, a revenue sharing law, the reconstitution of the national oil company, and the restructuring of the federal MOO. None of the laws are before the COR at this time. A draft hydrocarbon law was submitted to the COR in October, but was returned to the Council of Ministers.

In an effort to reach consensus, Iraqi officials discuss outstanding issues regarding the hydrocarbon framework law, which would, among other things, set forth procedures for international investment. However, even in the absence of a signed hydrocarbon law, Iraqis are benefiting from the impact of expanded oil revenue created through increased production and export volumes in 2008. Iraq's oil fields are experiencing natural decline in production rates and currently have no offsetting new production. Since oil prices dropped during this quarter, the GOI must judiciously decide how to forecast next year's budget.

(B) Adopting laws necessary for the conduct of provincial and local elections, taking steps to implement such laws, and setting a schedule to conduct provincial and local elections

With the enactment of the Provincial Elections Law and minority representation amendment, all legislation necessary to conduct provincial and local elections has been adopted. The Council of Ministers has announced that the elections will take place January 31, 2009. The Provincial Powers Law, enacted in February, will give the new provincial councils elected in January greater powers in several areas, including budget and personnel.

The Provincial Elections Law does not apply to the provinces that are part of the KRG or to Tamim Province. Although a date has not been set, elections in the three KRG provinces are expected to be held in mid-year 2009. A separate elections law to be enacted by the COR following the submission of a report by a special COR committee on Kirkuk will govern provincial elections in Tamim Province. The special committee is required to report by March 31, 2009 on a mechanism for division of powers in the province, property restitution, and demographics. If the COR fails to enact such a law, the three presidencies (President, Council of Ministers, COR) will, with UN assistance, specify the appropriate conditions for provincial elections in Kirkuk and the rest of Tamim Province.

IHEC, with UNAMI's assistance, is engaged in technical preparations for the provincial elections. Voter registration, candidate registration, coalition registration, and ballot positions have been finalized, and detailed joint ISF/MNF-I security planning is underway.

UNAMI has announced the launch of a nationwide Election Coverage Network. The project will include the production and dissemination of "Voter

Education Radio Programs” aimed at educating voters on procedural and technical details of the voting process and at providing objective information and analysis of parties’ positions, campaign issues, the role of governors and provincial councils, and their relation to the central government. The information will be provided to FM radio stations throughout Iraq.

(C) Reforming current laws governing the de-Baathification process in a manner that encourages national reconciliation

In February, the GOI passed the Law on Accountability and Justice (also known as de-Baathification reform). Iraq’s leaders pledged to pursue implementation that would bolster reconciliation efforts. The law would allow an estimated 38,000 former Ba’ath members to return to government employment.

In 2003, Coalition Provisional Authority Order No. 1 abolished the Ba’ath Party and removed the top four levels of Ba’ath Party members from government positions; the order also banned them from future government service. Although the implementation procedures for the Accountability and Justice Law have yet to be determined, the law allows former fourth level (firqa) Ba’ath Party members to return to government employment, with some exceptions. The law also creates a limited appeals process by creating a committee of judges to adjudicate cases.

In addition to the Accountability and Justice Law, December 2007 amendments to the Unified Pension Law restored pension rights to former civil servants and military officials without regard to former party affiliation.

(D) Amending the Constitution of Iraq in a manner that encourages national reconciliation

On August 6, COR Speaker Mashadani again extended the mandate of the COR Committee on Constitutional Amendments. It had previously been extended from December 31, 2007 through July 2008. The committee has been tasked with analyzing the current constitution and suggesting necessary amendments. Although the committee has not completed its recommendations, passage of key legislation like the Region Formation Law and the Provincial Powers Law lessens the urgency for the committee to address some constitutional issues.

(E) Allocation and expenditure of Iraqi revenues for reconstruction projects, including delivery of essential services, and implementing such reconstruction projects on an equitable basis

GOI ministries and provincial governments continue to improve their ability to allocate and spend their own money, although impediments to full spending remain. On the heels of higher-than-projected oil revenues, the COR passed a \$22 billion supplemental in early August, indicating a firm commitment to pass along increased revenues to the Iraqi people. The draft 2009 budget, submitted to the COR in mid-November, includes a \$14.4 billion capital reconstruction budget, although the GOI has become more stringent toward capital reconstruction allocations in light of the recent fall in oil prices, and therefore revenue.

The GOI spent \$3.4 billion on reconstruction in 2007, which was significantly higher than capital expenditures in both 2005 (\$1.4 billion) and 2006 (\$1.6 billion). In addition, during 2007, spending units signed contracts and funded letters of credit for purchases to be delivered in 2008. The most recent MOF data indicate that through September, the GOI spent or committed \$7.6 billion (including for letters of credit) on reconstruction at all levels of government. Of this, provincial governments (excluding the KRG provinces) were responsible for spending or committing \$1.6 billion (including for letters of credit), which was significantly higher than the amount the provinces spent in all of 2007 (\$870 million).

A variety of factors affect budget execution, including technical capacity, security, bureaucratic bottlenecks, and absorption capacity. USG civilian and military personnel in the Embassy and at PRTs work with ministry and provincial officials to address these issues through targeted assistance and capacity building programs.

(F) Making significant efforts to plan and implement disarmament, demobilization, and reintegration (DDR) programs relating to Iraqi militias

Militia activity, specifically from the JAM, substantially declined in 2008. Some JAM fighters have laid down their arms and others have fled to Iran, although some of those who fled may be returning to Iraq. Additionally, JAM members have begun to reorganize into a social and cultural organization following Muqtada al-Sadr's June 13 call for JAM's transformation. Smaller

groups of more militant members are transitioning into the more lethal Special Groups, which receive funding, training, and lethal aid from Iran and are judged to be less under Sadr's control.

Sunni resistance groups have likewise greatly reduced operations in the past year, as many members have joined SOI formations or decided to participate in DDR programs.

The Implementation and Follow-up Committee for National Reconciliation is the GOI's lead agency for the SOI program. Its Disarmament, Demobilization, and Reintegration Committee is charged with paying SOI as they transfer from Coalition to GOI control. The Iraqi Army has operational control of the SOI that have transferred. As of December 31, the Iraqi Army paid for approximately 48,000 SOI in the Baghdad area using Implementation and Follow-up Committee for National Reconciliation DDR funds, and it is expected to pay the remaining approximately 1,980 Baghdad-area SOI that are under USG contracts.

To assist with these transitions and to transition ex-insurgents and militia members, the Coalition – in collaboration with the GOI – is implementing a number of alternative employment and training programs, including: the Joint Technical Education and Reintegration Program (JTERP), the Civil Service Corps (CSC), and the Community Based Worker's Program (CBWP).

JTERP is an Iraqi-directed program that provides classroom-based vocational training to the SOI. It is a collaboration of efforts among multiple ministries, including the Ministry of Labor and Social Affairs, the Ministry of Education, and the Ministry of Higher Education and Scientific Research, as well as the National Reintegration Committee. The JTERP Pilot Program was conducted in Tikrit and Mahmudiyah.

The CSC and the CBWP are on-the-job apprenticeship training programs designed to teach vocational skills while improving the infrastructure of the community.

III. A detailed description of the Joint Campaign Plan, or any subsequent revisions, updates, or documents that replace or supersede the Joint Campaign Plan, including goals, phases, or other milestones contained in the Joint Campaign Plan.

The Joint Campaign Plan (JCP) recognizes the imperative of enhancing security and protecting the Iraqi population, and underscores the importance of helping Iraqis establish legitimate, representative governance at both the national and provincial levels. All lines of operation – economic, diplomatic, security, political, and rule of law – support this end.

(A) An explanation of conditions required to move through phases of the Joint Campaign Plan, in particular those conditions that must be met in order to provide for the transition of additional security responsibility to the Iraqi Security Forces, and the measurements used to determine progress

Coalition Forces and U.S. embassy Baghdad's integrated efforts along the JCP's lines of operation help set the conditions for the Iraqis to achieve sustainable security, advance reconciliation, and secure political and economic development.

A Joint Campaign Assessment Team completed a survey of Iraq in October, and its recommendations were incorporated by MNF-I and U.S. embassy Baghdad in the ongoing JCP rewrite effort. The draft plan outlines efforts to build government capacity, deliver essential services, improve local economies, institute rule of law, and implement reconciliation initiatives among Iraq's constituencies while continuing to improve security conditions throughout the country.

The JCP and its upcoming revision acknowledge that efforts must be integrated with the GOI. It has been rewritten to fully incorporate the implementation of the recently signed USG-GOI Security Agreement. It also recognizes that transition of security responsibility to the GOI must take place at a responsible rate, based upon existing security threats and conditions, and the GOI's capacity to assume further responsibility to protect its population.

(B) An assessment of which conditions in the Joint Campaign Plan have been achieved and which conditions have not been achieved. The assessment of those conditions that have not been achieved shall include a discussion of the factors that have precluded progress

The current U.S. embassy Baghdad/MNF-I JCP was rewritten to account for current conditions. The overarching strategic goals remain firmly in place – a unified, democratic and federal Iraq that can govern, defend, and sustain itself and is an ally in the war on terror – and the tasks are adjusted as conditions warrant.

The U.S. Ambassador in Iraq and the MNF-I Commander oversee a process of continuous review, assessment and revision of the JCP and have the latitude to revise the document in response to changes in the operational environment. The JCP acknowledges that efforts must be integrated with the GOI. It also recognizes that transition of security responsibility to the GOI must take place at a responsible rate, based upon existing security threats and conditions and the GOI's capacity to assume further responsibility and protect its population.

(C) A description of any companion or equivalent plan of the Government of Iraq used to measure progress for Iraqi Security Forces undertaking joint operations with Coalition Forces

The Iraqi Joint Headquarters has taken the lead in evaluating the Iraqi Joint Forces by presenting its Transition Readiness Assessment to the MOD during this reporting period. Senior leaders from both the Joint Headquarters and MOD assessed the training capability of the Iraqi forces under the MOD. The Joint Headquarters identified the most significant challenges facing the joint forces, which are largely personnel-related due to the accelerated growth in the security forces, and the improvements needed in sustainment, logistics and enabling capabilities. Equipment challenges brought to light in this Transition Readiness Assessment relate to the centralized decision-making process and lack of direction and decisions from the MOD.

Between August and October, the Iraqi Joint Forces developed a Quarterly Readiness and Strategic Review (QRSR) process to monitor, audit, and record military transition status and operational readiness capability. It combines a readiness evaluation of the Iraqi Army, Iraqi Air Force, and Iraqi Navy during the previous quarter and a strategic review of training, manning, logistics, operations, and infrastructure. The Joint Headquarters compiled the first QRSR with MoD involvement and endorsement for presentation to the Defense Minister in October.

In addition, the Iraqi MOD and Multi-National Corps-Iraq jointly conduct a thorough assessment of Iraqi forces using the Operational Readiness Assessment process to determine a unit's readiness to lead operations.

IV. To the extent that these conditions are not covered under paragraph III, the following should also be addressed:

(A) The number of battalions of the Iraqi Armed Forces that must be able to operate independently or to take the lead in counter-insurgency operations and the defense of Iraq's territory

Coalition Forces work with the GOI to ensure the appropriate size, capability, and leadership of the Iraqi military, so that they can assume additional security responsibility. There is no requirement that identifies a minimum number of Iraqi Army battalions that must be rated at the highest level of operational readiness.

Iraqi Army combat battalions have increased in number and improved in capability. As of November 1, 165 Iraqi Army combat battalions were conducting operations, including five newly formed battalions. Another nine Iraqi Army combat battalions were in force generation. Five Iraqi Special Operations battalions are conducting operations, of which four are rated as capable of conducting operations with minimal Coalition support, and one is rated as capable of conducting operations with Coalition forces. Five Iraqi Army infrastructure battalions are conducting security operations. Two of these units are rated as requiring only minimal Coalition support while three are rated as requiring Coalition support.

The Iraqi Air Force is expanding its operational capability. The Iraqi Air Operations Center now provides scheduling, command and control, and execution for over 300 operational and training sorties per week.

The Iraqi Navy is strengthening its ability to patrol Iraqi territorial waters, provide for point-defense of Iraq's two off-shore oil platforms, and provide security for the port and towns of Umm Qasr and Az Zubayr. The Navy conducts an average of 42 independent patrols and 35 commercial ship boardings per week, and maintains an in-commission capability rate of 80 percent for the Iraqi fleet.

(B) The number of Iraqi special police units that must be able to operate independently or to take the lead in maintaining law and order in fighting the insurgency

As with the Iraqi military, Coalition Forces assist the GOI with the development of its various police forces. There is no requirement that identifies a minimum number of police units that must be rated at the highest level of operational readiness.

The National Police (NP) is meeting its goal of providing a national-level rapid response police capability to counter large-scale civil disobedience and insurgency activities. As of November 1, two formed NP battalions were capable of independently planning, executing, and sustaining operations, while 18 of the 33 formed NP battalions were capable of planning, executing, and sustaining operations with limited Coalition support, and 15 NP battalions were rated as requiring Coalition forces for operations. Another 13 battalions were being formed. The MOI's long term goal is to have an NP brigade in each province.

NP performance improvement is reflected in recent counterinsurgency operations throughout Iraq. The NP is presently comprised of three divisions, separate mechanized and sustainment brigades, and other ancillary units. While primarily located in the Baghdad area, the NP is beginning to station units outside the city. Over time, the NP will establish permanent bases in all provinces in Iraq, except in the KRG provinces. The NP plans to establish additional brigades in Ninewa (Mosul) and Diyala (Baqubah) provinces and will complete the full establishment of the brigade in Basrah in 2009.

The NP conduct specialized training for police recruits who have completed basic recruit training at Al Kut, Al Najaf, Basrah, or Sulaymaniyah training academies. Top graduates from these courses are selected to form the NP cadre of the future. In anticipation of a shortfall in trained mechanics to service the High Mobility Multipurpose Wheeled Vehicles it received during the reporting period, the NP provides specialized training for its mechanics at the Iraqi Army Support and Service Institute.

(C) The number of regular police that must be trained and equipped to maintain law and order

The Iraqi Police Service (IPS) mission is to enforce the rule of law, safeguard the public, and provide local security. IPS in Basrah initially performed poorly during security operations in the Spring of 2008, with many abandoning their posts. However, the IPS has improved with each subsequent operation, and is becoming a more professional force that can, with increasingly limited Coalition support, operate and maintain law and order throughout Iraq. The disparate elements that make up the IPS are starting to provide cross-department support to each other, further enhancing their ability to operate.

The IPS consists of all provincial police forces (station, patrol, traffic, and special units) assigned to the 18 Iraqi provinces. The Provincial Directors of Police oversee operations and sustainment of over 1,300 police stations across Iraq. The IPS directs policy and strategic planning, and has technical control over training, vetting, and hiring. Other significant departments and directorates within the IPS are the Criminal Evidence Directorate, Special Weapons and Tactics/Emergency Response Unit, and the General Directorate of Crime Affairs.

The MOI's ability to focus on force generation and address basic equipping shortfalls is an area of concern. An ongoing delivery of over \$200 million worth of Iraq Security Forces Fund purchases this reporting period will improve the equipment problem. Three separate police vehicle Foreign Military Sales cases are 98 percent complete, resulting in receipt of over 2,600 vehicles. Construction on IPS facilities continues. Since October 2007, 76 police stations, including 39 permanent stations, 21 expedient stations, and 16 district headquarters, have been completed.

IPS leaders confront challenges, including intimidation, poor maintenance and infrastructure support, and limited training opportunities. MOI leadership is addressing shortcomings (e.g., personnel, equipment, and budget) by holding Provincial Director of Police conferences quarterly. These conferences provide a forum for the Provincial Directors of Police to address issues with the executive leadership of the MOI and Coalition.

As of November 1, the IPS consisted of approximately 300,000 patrol, station, and traffic personnel. The GOI has authorized over 334,000 IPS patrol, station, and traffic personnel throughout Iraq.

(D) The ability of Iraq's Federal ministries and provincial and local governments to independently sustain, direct, and coordinate Iraq's security forces

Operationally, both MOI and MOD forces are proving increasingly capable. In most areas, coordination between the two ministries and their subordinate organizations is improving through the implementation of operations centers in each province. The operations centers allow MOI and MOD forces to jointly coordinate operations and share information, which has resulted in the apprehension of suspects and the discovery of weapons caches. ISF are also gaining more support from the local population. Iraqi officials cultivate relationships and develop trust within their communities by performing humanitarian support and information operations to solicit local help to combat insurgents. The ISF also demonstrates to the population its accomplishments against terrorists and how its actions are making Iraqi communities less violent.

During recent and ongoing operations in Amarah, Basrah, Diyala, Mosul, and Sadr City, the ISF demonstrated improving capability to move units, conduct planning, and exercise command and control while conducting simultaneous operations in various parts of the country. The ISF relies on Coalition enablers, such as intelligence, signal, engineer, explosive ordinance, and close air support. The quality of operational planning has improved, as ISF staffs are increasingly able to plan and conduct combined and basic joint operations, information operations, civil-military operations, and some post-conflict reconstruction activity.

Tactical operations proficiency is also improving. In Sadr City, ISF units demonstrate an ability to effectively use counterinsurgency tactics and perform active patrolling and clearance operations, as well as conduct high-value intelligence searches. Iraqi Special Operations Forces and special police units have performed effectively to disrupt AQI and foreign fighters. Iraqi Special Operations Forces planning continues to improve; however, there remains a critical reliance on Coalition rotary wing assets for insertions, and on other enablers such as intelligence and close air and logistics support. MOI and MOD forces are improving the frequency of, and their ability to conduct, after-action reviews, and are incorporating lessons from these as a part of future training.

V. The criteria to be used to evaluate progress toward meeting such conditions.

The Joint Committee to Transfer Security Responsibility established conditions to provide a framework with which to assess provincial readiness to transition to PIC. Factors considered prior to transitioning a province to Iraqi control are: the ability of Coalition forces to reinforce the ISF if necessary, the readiness and capabilities of the ISF, levels of present and projected insurgent activity, and the readiness and capabilities of relevant government institutions. Of the required criteria for PIC transition, Iraqi security self-reliance is the most difficult to attain and proceeds at a different pace in each province.

As of October 31, 13 of Iraq's 18 provinces had successfully transitioned to PIC. Security incidents have declined generally across the board in post-PIC provinces and the profile of Coalition forces is reduced. The recently signed U.S.-Iraq security agreement governs security responsibilities after January 1, 2009. Coalition forces will continue to assess conditions in the remaining provinces where security responsibilities have not been formally transferred, and make recommendations to the GOI on future security expectations. Assessments of all Iraqi provinces are planned, and are expected to lead to a permanent conditions-based evaluation of Iraqi provinces led by GOI officials, with Coalition officers advising and recommending improvements in ISF capacity.

The GOI and Coalition assessment process will use criteria evaluating threat, economic, and political conditions affecting ISF abilities to maintain security without depending on Coalition Forces. Information describing current and projected economic development and provision of essential services will be added to existing GOI and Coalition assessments of manning, training, equipment, and readiness of provincial forces.

VI. A plan for meeting such conditions, an assessment of the extent to which such conditions have been met, information regarding variables that could alter that plan, and the reasons for any subsequent changes to that plan.

In seeking to meet the security conditions and transition security responsibility to capable ISF, the Coalition's four areas of focus to develop the MOD, the MOI, and their forces, which remain unchanged from previous reports, are: (1) support the force generation and force replenishment of MOD and MOI forces; (2) improve the proficiency and professionalism of the Iraqi forces; (3)

build specific logistic, sustainment, and training capacities; and (4) develop ministerial and institutional capacity.

The four near-term areas of emphasis through mid-2009 also remain unchanged: (1) ensure Iraqi forces continue to improve in logistics, maintenance, and life support; (2) ensure the size, capability, professionalism, and leadership of the ISF enable increasing assumption of additional security roles from U.S. and other Coalition forces; (3) enhance the capabilities of Iraqi Special Operations and Counter-Terrorism Forces; and (4) ensure Iraqi Air Force and Iraqi Navy growth stay on track.

Both the MOI and MOD show progress in developing ministerial capacity, albeit slowly and unevenly. Recruiting and retention of personnel is progressing to meet 2008 force structure goals. However, the MOI struggles with training throughput, and the MOD hiring freeze will delay achieving its desired 2008 end strength for the Iraqi Army. To expand institutional capacity, Coalition mentorship and partnership will be necessary for several years to overcome decades of isolation and stagnation in law enforcement and military education and training. A lack of capacity to train civilian management, inadequate training staff, deteriorating facilities, and an inability to fill positions with trained personnel also hinder the ministries. Currently, many Iraqi civilians working in positions in the MOD and MOI are not qualified. While training is being offered, many are reluctant to pursue it.

Logistical and sustainment capability remains a concern and is essential for consistent ISF self-sufficiency. Security forces have become more competent and self-sufficient over time; however, Coalition assistance during Basrah operations in 2008 highlighted ISF limitations in planning and conducting expeditionary life support. Consequently, as evidenced during subsequent operations in Amarah, Diyala, Mosul, and Sadr City, the ISF is making appropriate organizational adjustments. While this is an encouraging development at the tactical level, much effort must yet be directed to the sustainment and logistical support capability within the ISF at the operational and strategic levels.

VII. An assessment of the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report, the missions to be undertaken by the Armed Forces in Iraq for such period, and the incremental costs or savings of any proposed changes to such levels or missions.

Many factors have contributed to enhanced security and political stability, including increasingly capable ISF aided by the SOI, Coalition forces' support to the ISF, the demonstrated will of the GOI to counter extremists and continue operations against them, and the rejection of terrorists by the Iraqi people. There has been a nationwide reduction in Iraqi civilian deaths by almost 63 percent compared to the same time in 2007, and civilian deaths remain lower than at any time since early 2004. While high-profile attacks involving personnel and vehicle-borne explosive devices continue, the number of these attacks and resulting casualties remain at 2004 levels. For the second year in a row, there was no significant increase in violence during or immediately following Ramadan. Violence has remained at levels last seen in 2004 for nearly six months. The strength of the insurgency continues to decline as many former insurgent leaders have been neutralized or are now participating in the political process.

These successes have paved the way for the transition of primary security responsibility from Coalition forces to the ISF. Babil and Wasit Provinces transferred to PIC in October. Anbar, once an AQI stronghold, transferred to Iraqi control in September. The ISF are now in charge of security operations in 13 of Iraq's 18 provinces, and Iraq's security has improved while Coalition forces have reduced their presence.

Currently, approximately 140,000 U.S. forces serve in Iraq. MNF-I will continue to examine conditions on the ground and make recommendations to change force levels as appropriate. We have entered a new operational environment in Iraq with the end of UNSCR 1790, and the implementation of the U.S.-Iraq Security Agreement and arrangements reached with Iraq by other Coalition nations. Operations against extremists will continue, although in even greater concert with the ISF and the GOI, as U.S. forces work toward accomplishing the mission of providing the ISF strategic oversight. Military and Police Transition Teams will remain vital components of our counterinsurgency strategy as an increasing number of Iraqi units lead operations. It is difficult to determine the costs or savings of any proposed changes to force levels and missions during this time.

The GOI continues to face numerous challenges, and security gains are still reversible, with AQI and other extremist elements remaining a threat. However, many trends in Iraq are on a positive trajectory. Former insurgents who previously resorted to violence now participate in Iraq's political process and will have the opportunity to partake in upcoming provincial elections. Reduced violence provides the time and space for political reconciliation, rule of law, delivery of essential services, and institutional development to improve.

VIII. A description of the range of conditions that could prompt changes to the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report or the missions to be undertaken by the Armed Forces in Iraq for such period, including the status of planning for such changes to the levels or missions of the Armed Forces in Iraq.

A range of factors across the political, diplomatic, security, and economic lines of operation are viewed collectively in understanding the complex and evolving Iraqi Operational Environment. These collective assessments, done along all lines of operation by MNF-I and the U.S. embassy in Baghdad, form the basis for all recommendations for future U.S. force adjustments.

Key security conditions include: the capabilities and strength of AQI and other extremist groups; Iran's support to proxies trying to undermine the United States in Iraq or weaken the new political order in the country; other forms of intersectarian violence; the strength and activities of criminal groups; the GOI's capacity to lead and conduct operations against insurgents and criminal groups; the GOI's capacity to secure its borders; and the reintegration of reconcilable individuals and groups into Iraq's political process and society. Most of these conditions will manifest themselves in political competition for power during the course of 2009.

In addition to the elections and transfers of power, the next few years will be instrumental in demonstrating progress in governance. The failure to demonstrate progress could impact the security environment. Progress should consist of broad ethno-sectarian reconciliation; the passage and implementation of important legislation; preparations for, and implementation of, provincial elections; reduction of corruption; and progress in establishing the rule of law and criminal justice institutions and systems accountable to the Iraqi people. The development of ministerial capacity and success in budget execution at both the national and provincial levels are also relevant considerations. Diplomatic metrics include the

support of regional states in stemming the flow of foreign fighters and terrorists; international economic support; foreign trade and investment; and foreign diplomatic representation in Iraq.

Significant economic factors include the status of Iraq's critical infrastructure; sustainable employment opportunities; provision of basic services; integration in the regional and international communities; and overall economic growth.

IX. A description of the strategy for, and contributions of, United States-led Provincial Reconstruction Teams, including embedded Provincial Reconstruction Teams and Provincial Support Teams, in Iraq that ensures that such United States-led Provincial Reconstruction Teams are supporting the operational and strategic goals of the Multi-National Force – Iraq, and developing the capacity of national, provincial, and local government and other civil institutions in Iraq to assume increasing responsibility for the formulation, implementation, and oversight of reconstruction and development activities.

The PRT program was established in June 2005 to strengthen the capabilities of provincial governments, assist in the coordination of USG reconstruction and development assistance efforts, encourage reconciliation, and provide enhanced reporting on political developments and advocacy of coalition political and economic policy goals.

In 2007, U.S. embassy Baghdad's Mission Strategic Plan directed the Office of Provincial Affairs to harmonize its efforts with any planned or ongoing military operations, while National Security Presidential Directive 44 instructed the Department of Defense to prioritize stabilization and reconstruction activities at a level comparable to combat operations. Consequently, the Chief of Mission, U.S. embassy Baghdad, and the Commanding General, MNF-I prepared an overarching framework and comprehensive plan outlining the updated roles, responsibilities, lines of authority, and general strategy for the PRT program. The resultant Strategic Framework was signed and released in September, 2008

The PRT program is one of the most critical elements of a comprehensive, integrated approach to helping Iraq become peaceful, united, stable, democratic, and secure. The effectiveness of the PRT program relies largely on decentralization, which in turn requires strong coordination to ensure a unified

effort by all Coalition partners. Goals and objectives tied to the JCP and U.S. embassy Baghdad Mission Strategic Plan provide focus to the PRT program.

The desired end-state for a PRT (including Provincial Support Teams and embedded PRTs) is provincial and local development characterized by a sustainable growing economy, firmly established rule of law, and provincial and local governments committed to and practicing democratic principles and providing essential services to their citizens. USG and Coalition objectives are designed to support the GOI's development of Iraq's provincial and local capacities to manage their own recovery and development programs and promote good governance at the provincial and local levels. To this end, the mission statement for Iraq PRTs is: "to assist Iraq's provincial and local governments' capacity to develop a transparent and sustained capability to govern, while supporting economic, political, and social development and respect for the rule of law."

U.S. embassy Baghdad and MNF-I have identified five key areas of focus that direct PRT, and wider Coalition, efforts toward achievement of the desired end state. Those areas are political development, governance, economic development, rule of law, and reconciliation. While PRTs operate in a decentralized fashion, coordinating efforts promotes the adoption of successful initiatives across the provinces. Some of these initiatives include:

Political development: PRT members engage with all segments of the Iraqi community to encourage dialogue across political, religious, ethnic, and other boundaries; support independent and qualified media that respect political diversity; encourage political outreach by government officials; support local non-governmental organizations in their efforts to improve community participation in elections; and provide reporting on political, economic, and security developments in the provinces.

Governance: PRT members coach and mentor provincial and local officials in such diverse topics as capital budget execution, parliamentary procedures, capital budget development, preparation of long range plans, and the implementation of anti-corruption initiatives; provide technology audits for provincial offices to encourage the use of computers and other technology to enhance capabilities and reduce corruption; provide organizational training to provincial managers; train provincial engineers in project management; and instruct provincial council members in legislative oversight techniques.

UNCLASSIFIED

- 48 -

Economic development: PRT members facilitate the appointment, training, and logistical support for the Provincial Investment Commissions responsible under Iraqi law for the approval and support of private investors; develop micro-finance institutions; create agricultural cooperatives and training centers; develop vocational educational institutions; facilitate trade fairs and business round tables; and support the development of trade associations.

Rule of law: PRT members encourage an effective criminal justice team through dialogue and cross-training with Iraqi police and judiciary; provide training for judges and attorneys in such diverse topics as forensic evidence, word processing, the internet, and computer based legal research; monitor prisons and courts to promote human rights; promote an independent judiciary through joint engagements with the judiciary and all other government actors; supply legal reference books to courts and schools; promote communications among the provinces and between the provinces and the national government; and provide support for legal aid operations.

Reconciliation: PRT members use their extensive local contacts to understand, report, and act upon actual or potential conflicts between tribes, religious sects, and ethnic groups and to encourage an understanding of the importance of compromise, reconciliation, and public interest over self interest. PRTs' extensive local contacts, developed through numerous engagements, make PRTs uniquely suited to this task. These disputes and the resolutions are often complex and require extensive local knowledge and advice.

In the coming months PRTs will capitalize on the improved security environment and the opportunity it affords to strengthen capacity-building efforts. The transition phase of operations in Iraq involves the Coalition shifting to a supporting role. As the transition phase comes to a close and sustainable capacity and self-reliance is achieved, PRTs will wind down and be replaced by more long-term traditional diplomatic, development, and bilateral assistance programs managed out of Embassy Baghdad and regional consulates, as appropriate.

Provincial progress towards capacity and self-reliance is assessed on the basis of qualitative measurements against a baseline first established by PRTs in November 2007. U.S. embassy Baghdad and MNF-I have jointly developed one such mechanism to assist in analyzing the development of provincial and local government capabilities, an assessment tool which measures progress, i.e., "maturity," in each of the five areas of focus. Each focus area has sub-categories and indicators sufficient to provide a clear assessment that supports resource

UNCLASSIFIED

UNCLASSIFIED

- 49 -

decisions for provincial and local development. PRTs submit formal quarterly assessments to the Office of Provincial Affairs, and these, in turn, are used to inform the Chief of Mission and Commanding General, MNF-I to assist in strategic decision making.

The quarterly assessments yield indicators to focus effort; each PRT develops a work plan linked to the focus area indicators identifying which spheres require further concentration or new approaches. Accomplishing these tasks creates the bridge between success at the provincial level and the achievement of the objectives of the JCP and U.S. embassy Baghdad Mission Strategic Plan.

Concurrent with the ongoing assessment process, each PRT/embedded PRT, in concert with its paired military unit, develops a Unified Common Plan which sets common goals and objectives at the operational and tactical level.

For additional details on ISF training, capability, and progress, please refer to the quarterly report to Congress entitled "Measuring Stability and Security in Iraq," http://www.defenselink.mil/home/features/Iraq_Reports/index.html.

For additional information on reconstruction, assistance, and the delivery of essential services, please refer to the 2207 Quarterly Report to Congress on The Iraq Relief and Reconstruction Fund (IRRF), <http://www.state.gov/p/nea/rls/rpt/2207>, or for general information on the status of political, economic, and security efforts, the Weekly Status Report, available on the Department of State web site, <http://www.state.gov>.

UNCLASSIFIED

List of Acronyms and Abbreviations

AQI	Al Qaeda in Iraq
BACC	Baghdad Area Control Facility
CBI	Central Bank of Iraq
CBWP	Community Based Worker's Program
CLA	U.S. Embassy Baghdad's Office of Constitutional and Legislative Affairs
COR	Council of Representatives
CSC	Civil Service Committee
DDR	Disarmament, Demobilization, and Reintegration
DFI	Development Fund for Iraq
EU	European Union
FY	Fiscal Year
GAPTIS	Governorates Accounting and Project Tracking System
GOI	Government of Iraq
GDP	Gross Domestic Product
ICI	International Compact with Iraq
IDP	Internally Displaced Person
IHEC	Independent High Electoral Commission
IMC	International Medical Corps
IMF	International Monetary Fund
IPS	Iraqi Police Service
IRFFI	International Reconstruction Fund Facility for Iraq
ISF	Iraqi Security Forces
JAM	Jaysh al-Mahdi
JCP	Joint Campaign Plan
JTERP	Joint Technical Education and Reintegration Program
KRG	Kurdistan Regional Government
MBPD	Million Barrels Per Day
MNF-I	Multi-National Force – Iraq
MOD	Ministry of Defense
MODM	Ministry of Displacement and Migration
MOF	Ministry of Finance
MOH	Ministry of Health
MOI	Ministry of Interior
MOO	Ministry of Oil
NATO	North Atlantic Treaty Organization
NP	National Police

UNCLASSIFIED

- 51 -

NTM-I	NATO Training Mission – Iraq
QRSR	Quarterly Readiness and Strategic Review
PIC	Provincial Iraqi Control
PKK	Kurdistan Workers’ Party
PRT	Provincial Reconstruction Team
SBA	Stand-By Arrangement
SIV	Special Immigrant Visa
SOI	Sons of Iraq
USG	U.S. Government
UN	United Nations
UNAMI	UN Assistance Mission for Iraq
UNHCR	UN High Commissioner for Refugees
UNSCR	UN Security Council Resolution
USAID	United States Agency for International Development
WTO	World Trade Organization

UNCLASSIFIED